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DIRECTORATE OF INTELLIGENCE

18 March 1985

INDIA: Rajiv's Next Steps

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Summary

With national and state elections now behind him, India's new Prime Minister faces high expectations from many constituencies. He has already turned his attention to the economy and the Sikh problem. The next few weeks may also provide clues as to Rajiv's intentions toward Sri Lanka and Pakistan, which he has flagged as his first foreign policy priorities. In mid-May he will begin a foreign swing in Moscow, continuing through Europe, the Middle East, and the US in June.

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This memorandum was prepared by the Subcontinent Branch of the Office of Near Eastern and South Asian Analysis. It was coordinated with the Directorate of Operations. Information as of 18 March 1985 was used in its preparation. Comments and queries are welcome and may be addressed to the Chief, South Asian Division, NESA,

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Engaging the Economy

Rajiv has inherited a buoyant economy. Agricultural gains have stimulated overall growth and increased domestic petroleum production has reduced spending on oil imports. Loans from the IMF and bank deposits from Indians resident in other countries have contributed to an increase in international financial reserves.

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Indian businessmen have high hopes for further economic gains under Rajiv. The corporate sector anticipates that he will go far beyond his mother in liberalizing restrictions on private industrial production. Although Rajiv has made it clear that he intends to control the direction of the economy, he has contributed to the sense of optimism by telling businessmen that the "problem will not be with government constraints" and calling for concrete steps to promote exports. He also indicated that he will expose the inefficient industrial sector to competition from imports. [redacted] the bureaucracy approves business proposals more quickly than in the past. The central government budget announced over the weekend, Rajiv's first comprehensive policy initiative, calls for a cautious easing of domestic controls.

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Rajiv's fascination with Western technology, coupled with implementation of the recently signed Indo-US memorandum of understanding on technology transfer, should stimulate cooperation between Indian and US business. But India will have to monitor its import expansion carefully. Balance-of-payments strains seem likely before the end of the decade as debt service and arms payments rise sharply and concessional aid levels off.

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Defusing Tensions in Punjab

In the past week New Delhi has made several moves designed to satisfy public expectations for progress in Punjab, placate Sikh moderates, and hopefully set the stage for negotiations of Sikh demands. These include releasing from jail eight Sikh leaders and promising to free others, declaring plans to send the new Cabinet committee on Punjab to talk with Sikhs, and showing leniency toward some Sikh soldiers being tried in military courts for rebellion last June.

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Rajiv is likely to take additional steps, such as lifting selected security measures in Punjab, but we doubt they will be sufficient to break the deadlock. Sikh reaction to Rajiv's gestures has been largely skeptical so far, even among the moderates whose good will Rajiv needs to ease tensions. Many Sikhs will continue to doubt New Delhi's good intentions unless Gandhi authorizes a full investigation of the anti-Sikh riots that followed his mother's assassination and releases other Sikh leaders.

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With Sikh moderates disillusioned and divided into factions, extremists probably will exercise a near veto on any prospective talks with the government, at least over the near term. Indeed, a variety of public [redacted] statements suggest that Rajiv and his close advisers are pessimistic about prospects for resolving Sikh discontent in Punjab. [redacted]

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Rajiv probably will give priority to extricating the Army, both to defuse concerns in the military about its role in Punjab and to buttress New Delhi's claims that the troubled state has returned to normal. The government recently formed a new paramilitary strike force in Punjab, probably to take over security duties from Army units. [redacted]

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#### Coming to Grips with Sri Lanka

New Delhi has become increasing impatient with Colombo's unwillingness to accept the paramountcy of political negotiations over military action in resolving the deepening Sinhalese-Tamil conflict. The growing flow of refugees into southern India has added to the sense of frustration. [redacted]

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Over the next few months Gandhi is likely to continue pressing Colombo to offer Tamils some new hope of conciliation. If Colombo demonstrates some positive movement toward negotiations in this time frame, New Delhi might, in return, intensify naval patrols in the Palk Straits to help control the movement of guerrillas and arms. [redacted]

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Overall, Rajiv will try to avoid being drawn more deeply into Sri Lanka's problems. He would be reluctant to send Indian troops into Sri Lanka in part because he fears a backlash against Tamils in the Sinhalese regions of the island. A major outbreak of fighting or the threat of foreign intervention, however, would force Gandhi to reconsider. [redacted]

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#### Managing Indo-Pak Relations

Zia's January announcement that Islamabad would try the Sikh hijackers of an Indian airliner has sparked a warming trend in Indo-Pakistani relations. Rajiv publicly praised Zia's goodwill gesture and last week in Moscow reiterated his hope for normalization. The Indian and Pakistani foreign secretaries expect to hold talks during the Nonaligned meeting in New Delhi next month--the first major bilateral discussions since India broke off negotiations of a proposed nonaggression pact last summer. [redacted]

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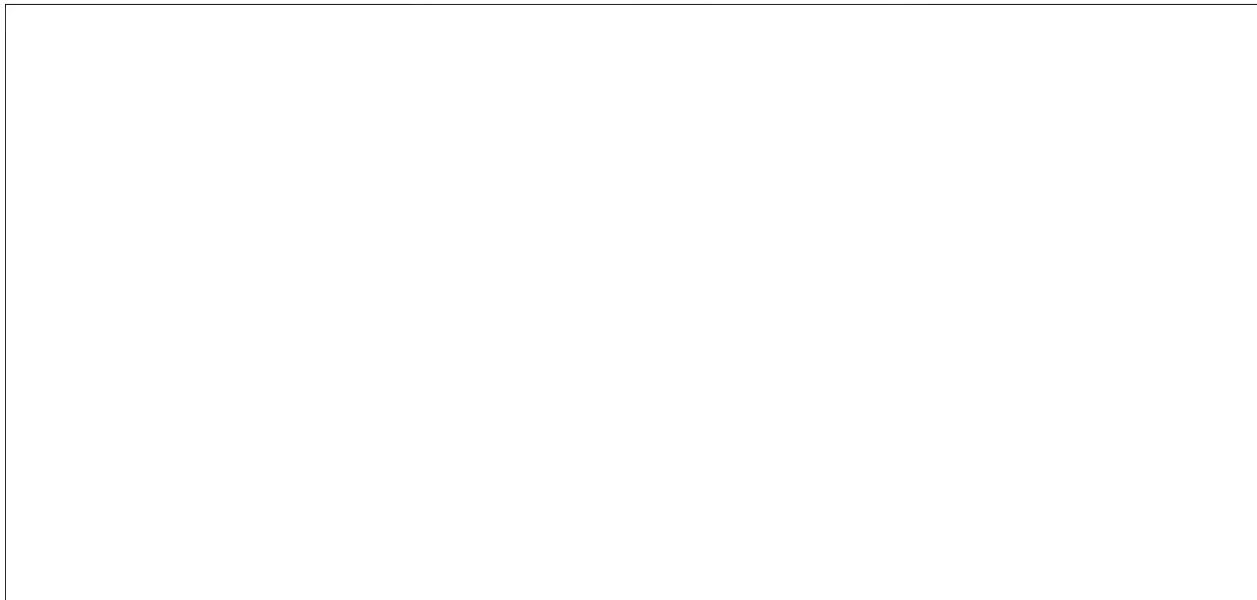
Some of Rajiv's senior personnel changes also will help ease relations. [redacted]

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What About the Soviets?

Rajiv probably will go ahead with his previously scheduled mid-May trip to Moscow in part to balance his June US visit, but also to reassure Moscow that New Delhi values the relationship and to follow up on his short meeting with Gorbachev at Chernenko's funeral. [redacted]

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[redacted] Rajiv's intent to liberalize the economy and to acquire Western technology has alarmed the Soviets, who reportedly fear their influence in New Delhi would necessarily weaken as a result. Rajiv may even try to gain additional concessions from Moscow--a faster timetable for MIG-29 deliveries, for example--by noting his interest in diversifying arms purchases and importing Western technology.

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New Delhi has not shown Moscow any special deference in recent months. Moscow was asked to recall two Soviet diplomats in the wake of the spy scandal, [redacted]

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DDI/NESA/SO/S [redacted]

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